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DAILY NEWSPAPER ANALYSIS

THE HINDU

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Topic: GS3 - FDI Reform

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Daily News Paper

Tinkering for optics: On FDI rule changes

Context:-

- Recently government of India announced new Foreign Direct Investment (FDI) norms.
- From extending the available ***100% FDI under the automatic route*** in the **coal mining sector** (till now permitted only for captive consumption) to include those companies seeking **to commercially sell the commodity**, to distinctly including **contract manufacturing** under the automatic 100% route and **easing local sourcing norms for overseas investors in the Single Brand Retail Trading (SBRT) business**.

Why FDI Reform:-

- FDI reforms appears to be one more push to make India a more attractive destination to overseas investors, especially those keen on entering the market for the long haul.
- The government, clearly concerned by the **economic slowdown** and **persistently weak investment activity**, has sought to provide a policy fillip to attract more foreign capital into sectors that it sees as having a **multiplier effect** *particularly in terms of job creation*.

- Moreover there are also following pressing contexts
    - Earlier this month, the RBI pointed out that ***net FDI flows had moderated*** to $6.8 billion over the first two months of the current fiscal year, from $7.9 billion in April-May 2018.
    - And with Prime Minister Narendra Modi having set ***a goal of ensuring India becomes a $5 trillion economy within the next five years***, the overall consumptive capacity needs to be raised manifold to undergird demand growth.

Analysis of FDI Reform:-

- With the above reasons the act of widening reforms in coal mining, manufacturing and retail is completely understandable. For eg.
    - 100% FDI in coal will boost Coal India Limited's (CIL) **competitiveness** and **efficiency**, as this would kindle the interest of global miners, and will bring the **updated modern technology**, and increase India's coal production.
    - increased mining will also **lower avoidable imports of coal** that India has to make due to the prevalent demand-supply gap. CIL's production is growing at a fast clip, but *in 2018-19 India spent about $8 billion on importing 125 million tonnes of coal for non-coastal thermal plants*.

- A closer examination, however, raises several concerns about the ultimate attractiveness of these changes. For instance
  - the **environmental costs** of focusing on one of the most polluting fossil fuels notwithstanding.
  - This is predicated on the prospect of seeing an influx of both capital and modern technology into mining and processing, as well as raising domestic supply of the key raw material for power, steel and cement production thereby cutting costly and burgeoning imports. But for foreign mining companies to make a beeline to pitheads, *several related regulatory and market challenges* will have to be addressed post-haste.
  - Large miners will **need economies of scale** and so require access to large contiguous fields with **minimal bureaucratic constraints** on operations.
  - While domestic thermal power plants have had to rely on increased imports in recent times, many of the electricity producers themselves are in **financial stress**.

Way Ahead:-

- Hence FDI reform would need increased **ease-of-doing business** and time-bound approvals as well as regulatory measures which did not hurt the environmental concerns.
- Moreover there is needed some overhaul to the problems inherent to domestic manufacturing to gain the **multiplier effects** from ease in FDI.